LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7553 | **NOTE PREPARED:** Mar 30, 2011
BILL NUMBER: HB 1001 | **BILL AMENDED:** Mar 29, 2011

SUBJECT: Budget Bill.

FIRST AUTHOR: Rep. Espich | **BILL STATUS:** As Passed House
FIRST SPONSOR: Sen. Kenley

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
X FEDERAL

Summary of Legislation: (Amended) This bill does the following.

State Appropriations: The bill appropriates money for capital expenditures, the operation of the state, the delivery of Medicaid and other services, and various other distributions and purposes.

Indiana Transparency Portal: The bill provides for the placement of information on a state transparency portal.

Zero-Interest Small Business Loans: The bill also permits small business loans to be made from the Twenty-First Century Research and Technology Fund and changes the name of the fund.

Refund of Surplus Revenue: The bill provides for the return of a part of the state's year-end general revenue surplus to Indiana residents in the form of a refundable adjusted gross income tax credit. It establishes the income tax reduction reserve and procedures to implement the credit program.

Horse Racing: The bill permits the Horse Racing Commission to pay operating costs from the breed development funds established by the Commission.

Public Safety Officer Health Care: It terminates contributions to the retirement medical benefits account for the State Police Department, conservation officers of the Department of Natural Resources, and the State Excise Police. It also provides for a contribution to the separate health care benefit plan for these public safety officers.

Gaming and Cigarette Tax Revenue Provisions: This bill changes the percentage of the revenues collected from: (1) gambling games at racetracks that must be deposited in the state General Fund; (2) cigarette taxes that must be deposited in the State Retiree Health Benefit Trust Fund; and (3) state gross retail taxes that must be deposited in the Public Mass Transportation Fund. The bill also provides for a distribution of gaming revenue to the Little Calumet River Basin Development Corporation.

Other Tax Provisions: The bill exempts meals served at a legislative meeting from the gross retail tax. The bill also requires recovery over three years of overpayments to counties of local income taxes.

Correctional System Healthcare Provisions: The bill limits hospital reimbursement for health services provided to offenders committed to the Department of Correction (DOC) and eliminates the expiration of a hospital reimbursement limitation applicable to county sheriffs.

Medicaid, CHIP, and HIP Provisions: This bill continues the Quality Assurance Fee (QAF) program. This bill also changes the maximum income eligibility for the Children's Health Insurance Program (CHIP). It makes changes in the drug utilization policies for the Medicaid Program and the Children's Health Insurance Program.

Family and Social Services Administration (FSSA) Provisions: The bill establishes the Council on Evansville State Hospitals. It provides that the Division of Mental Health and Addiction shall maintain normal patient care at the Evansville State Hospital and the Evansville State Psychiatric Treatment Center for Children unless a reduction or termination is authorized by statute or specifically recommended by the Council on Evansville State Hospitals.

Indiana School for the Deaf and the Indiana School for the Blind and Visually Impaired: This bill provides that teachers at the Indiana School for the Deaf and the Indiana School for the Blind accrue vacation leave in accordance with the policies set by Indianapolis Public Schools and are not eligible for vacation leave granted to other state employees.

School Accountability: The bill also specifies how to report student data for a student who transfers schools because of a disability.

State Student Assistance Programs: The bill makes changes related to scholarships.

State University Provisions: Subject to State Budget Committee review, the bill makes tuition and mandatory fee targets set by the Commission for Higher Education binding on state educational institutions. The bill also permits the establishment of a mandatory student fee schedule for priority dual enrollment courses. The bill also changes procedures related to capital projects for state educational institutions.

ICHIA Provisions: The bill revises the eligibility requirements for an Indiana Comprehensive Health Insurance Association (ICHIA) policy to require applicants to first apply for the federal pre-existing condition insurance plan and the Healthy Indiana Program. The bill authorizes the ICHIA Board to implement a reduced reimbursement rate program. It sets the ICHIA premium rates at 150% of the average commercial carrier rate.

State Employees: The bill freezes certain salaries.

K-12 Education: The bill also provides a state tuition support funding formula.

County Fund Provisions: The bill permits purchase or lease of vehicles for a community correction fund from a cumulative building fund.

Effective Date: Upon passage; January 1, 2011 (retroactive); July 1, 2011; August 1, 2011; January 1, 2012.

Explanation of State Expenditures: The bill has the following state expenditure impacts.

(Revised) *State Appropriations:* The following summary is for state appropriations during FY 2012 and FY 2013.

Appropriations by Function (SECTION 1-36)	FY 2012 **	FY 2013 **
General Government	$552,030,477	$620,731,717
Corrections	670,467,203	678,363,200
Other Public Safety	94,832,312	94,904,218
Conservation and Environment	73,132,130	73,132,130
Economic Development	27,790,413	27,790,413
Transportation	0	0
Mental Health	245,563,984	245,563,984
Public Health	30,332,681	30,332,681
Medicaid	1,888,503,064	2,034,203,064
Family and Children	175,108,656	176,184,123
Social Services and Veterans	775,570,795	780,282,833
Higher Education	1,681,323,427	1,679,154,831
Education Administration	15,051,831	15,051,831
Tuition Support - GF	6,247,700,000	6,247,700,000
Social Security - Teachers	2,403,792	2,403,792
Teacher's Retirement - GF	725,400,000	747,200,000
Other Local Schools	253,140,364	249,140,364
Other Education	8,188,753	8,188,753
Distributions *	161,500,000	161,500,000
Total Operating	**$13,628,039,882**	**$13,871,827,934**
Construction - Higher Ed	$0	$0
Construction - Other	269,629,352	261,418,733
Total Construction	$269,629,352	$261,418,733
Total GF (Operating + Construction)	**$13,897,669,234**	**$14,133,246,667**
BIF	$13,701,889	$13,701,889
Other Dedicated - Operating	1,829,528,108	1,364,717,941
Other Dedicated - Construction	38,673,676	37,308,205
Tobacco Settlement	132,032,867	132,033,352
Federal	916,130,000	971,070,000
Total (Dedicated and Federal)	**$2,930,066,540**	**$2,517,636,957**
Total - All	**$16,827,735,774**	**$16,650,883,624**

* Distributions total does not include $8.1 M in each year of the biennium for the Alcoholic Beverage Commission Gallonage Tax, which is in current statute but is not in this bill.
** Biennial appropriations are distributed in each fiscal year based on the timing of expenditures anticipated by the State Budget Agency.

Source: State Budget Agency

(Revised) *K-12 Education:* School Formula- The bill establishes a school formula for CY 2012 and CY

2013.

The basic changes in the school formula from the current 2011 formula are the following.

1. The free and reduced lunch percentage used in the formula is updated to the 2011 school year's percentage of students eligible for free or reduced lunch. The second tier calculation of the complexity index is increased to 1.28 in 2012 and 1.31 in 2013.
2. The school formula uses the current ADM instead of the greater of the current ADM or the 3-year average ADM.
3. The foundation grant is decreased to $4,247 for CY 2012 and to $4,266 for CY 2013, and the free and reduced lunch funding level in the complexity index is reduced to $2,113 for CY 2012 and $2,122 for CY 2013.
4. Previous year revenue for CY 2012 includes the CY 2011 Restoration and Small School Grant.
5. The transition to foundation is changed for schools transitioning down to foundation. Schools would transition down to foundation over 9 years in 2012 and 8 years in 2013. The starting point for the transition down to foundation is the lesser of 120% of the target revenue or previous year revenue per ADM. The minimum decrease of at least $150 down is removed.
6. The one-year transition for schools moving up to foundation is continued.
7. P.L. 874 loss is removed from calculations. P.L. 874 loss is the reduction in revenue a school receives in federal money for students on federal property who attend public school. The federal money was in place of the property taxes the federal government does not pay.
8. The Primetime calculation was changed. The new formula removes the minimum guarantee and also increases the complexity index required for funding at a student-teacher ratio of 15 to 1.
9. The special education, career and technical education, and honors grants per student are funded at the same level as 2011.
10. The honors grant would include students that receive a Core 40 diploma with technical honors. There are about 444 students that graduate with the Core 40 diploma with technical honors.

The following table outlines the changes over current CY 2011 funding levels.

	Current CY 2011	CY 2012	CY 2013
State Regular	5,655,022,000	5,503,826,000	5,488,080,000
Restoration	160,120,000		
Small School	16,418,000		
Special Education	503,439,000	507,550,000	512,033,000
Career& Technical	96,474,000	102,091,000	107,864,000
Prime Time	127,403,000	118,373,000	124,356,000
Honors	16,127,000	15,656,960	15,147,960
Sub Total	6,575,003,000	6,247,496,960	6,247,480,960
Governor's Reduction	327,296,000		
Total	6,247,707,000	6,247,496,960	6,247,480,960

The calendar year cap is set at $6,247,700,000 for CY 2011, CY 2012, and CY 2013.

Reserve Funds: The bill states that if the combined balances of the state General Fund, the Rainy Day Fund, and the Tuition Reserve Fund exceed 3% of the amounts appropriated for the prior year on June 30, 2012, and June 30, 2013, the State Budget Agency shall transfer $50 M annually to the Tuition Reserve Fund.

Higher Education: Tuition Increases: The bill would require the Higher Education Commission to establish mandatory tuition and fee increase targets for each state educational institution. Currently, the Commission can establish nonbinding tuition and fee increase targets. The Budget Director could increase or decrease the targets after a recommendation by the Budget Committee. There should be no additional cost to establish the targets. Depending on the targets set by the Commission and possibly modified by the Budget Director, state educational institutions could receive less tuition and fee revenue from students. Student tuition and fees were approximately $2.04 B in FY 2010 and $2.25 B in FY 2011.

(Revised) *State University Provisions:* The bill would change the various limits on public works projects and would require advertising, the Higher Education Commission's review, and the Governor's approval. The bill could reduce the administrative costs of public work projects for state educational institutions.

Inmates SSACI Awards: Inmates would not be eligible for a SSACI award. About 1,837 prisoners who were students received $3.7 M in the fall of 2010. The award savings could be used by other students.

(Revised) *Indiana Transparency Portal*: This bill requires the State Budget Agency to submit quarterly reports to the Auditor of State that provide all augmentations that exceed state fiscal year budget appropriations by $100,000. These reports will be made available on the Indiana Transparency Portal.

The Auditor of State launched the Indiana Transparency Portal in 2010. This website currently provides the following data to the public: state contracts; state employee salaries; budget information; revenue data; agency expenditures; local government annual financial reports; state debt authority overview; performance information; and American Recovery and Reinvestment Act (ARRA) information. In 2011, the Auditor of State's office expects to provide program performance results by associated budget, agency, or program, and a single search tool that provides a program's budget, expenditures, and performance results. Future projects for the transparency site will be to include state university spending and K-12 spending.

(Revised) *Zero-Interest Small Business Loans*: This bill provides that if the balance in the Twenty-First Century Research and Technology Fund reaches $50 M at any time, then the Indiana Economic Development Corporation (IEDC) Board shall establish policies subject to the approval of the Budget Committee and the State Budget Agency to provide zero-interest loans to Indiana small businesses that meet certain criteria. The bill specifies that policies adopted by the IEDC Board must provide that zero-interest small business loans from the fund must be used for working capital, and the amount of the loans may not exceed 25% of the total investment to create or retain at least 10 permanent jobs. Terms of the loans may not exceed 15 years, and the loans would be subject to approval by the State Budget Agency.

The Indiana Twenty-First Century Research and Technology Fund (renamed by the bill Indiana Twenty-First Century Research and Technology and Small Business Loan Fund) was created in 1999 by the General Assembly to provide financial assistance to Indiana technology-based companies so that they can transition from early-stage research to product development. In FY 2010, the fund provided grants totaling approximately $12.6 M to 12 Indiana companies. There has been a total of approximately $238 M in funds invested in 188 projects since 1999. P.L. 182-2009(ss) appropriated $17.5 M to the fund for FY 2011. As of March 29, 2011, the fund had a balance of approximately $24 M.

Refund of Surplus Revenue: The bill establishes the Income Tax Reduction Reserve Fund to pay for tax credits given to resident taxpayers in a fiscal year that the state General Fund surplus exceeds limits specified by the bill. The fund is nonreverting and is to be administered by the State Budget Agency. The bill requires the Auditor of State to make a transfer to the fund if the state General Revenue Fund balance at the end of the preceding fiscal year is greater than 10% of the state General Fund budgeted appropriations for the current fiscal year. The bill defines general revenue fund as the Rainy Day Fund, the state General Fund, including the Medicaid contingency and reserve account of the state General Fund, and the state Tuition Reserve Fund. The transfer to the Income Tax Reduction Reserve Fund must be made by July 31^{st} of the fiscal year. If the bill was already in effect, transfers would not have been required since FY 2001.

Administration of the Refund Tax Credit: The bill requires the State Budget Agency (SBA) to annually estimate the tax credit percentage for purposes of the tax credit to refund state General Fund surplus. After the transfer amount to the Income Tax Reduction Reserve Fund is determined, the SBA must compute the tax credit percentage for the tax year ending during that fiscal year. The tax credit percentage is the ratio of the transfer **to** the sum of:

(1) the estimated number of single returns to be filed by Indiana residents;
(2) the estimated number of joint returns to be filed where only one of the filers is an Indiana resident; and
(3) two times the estimated number of joint returns to be filed where both filers are Indiana residents.

The SBA's current level of resources should be sufficient to implement this task.

The Department of State Revenue (DOR) will have to revise tax forms, instructions, and computer programs to implement the new tax credit in the years when it is applicable. There could be additional costs of sending refund checks to taxpayers who would otherwise not receive a tax refund in the absence of this tax credit. These costs are indeterminable, but could be mitigated to the extent that refunds to these taxpayers are provided by direct deposit.

Indiana Horse Racing Commission (IHRC): The bill makes the following changes:

(1) It specifically authorizes the IHRC to pay the operating costs of the breed development programs and other costs of administering the breed development programs from the breed development funds. The IHRC expects to save about $190,000 annually from the IHRC operating account due to this change.

(2) It moves costs of equine post-mortem examinations and certain testing and analysis relating to racing integrity currently paid out of the IHRC operating account to the Gaming Integrity Fund. The IHRC expects to save about $40,000 annually from the IHRC operating account due to this change.

Currently, there are three breed development funds - thoroughbred, standardbred, and quarter horse. The breed development funds receive revenue from breakage, outs tickets, slot machine gross receipts, and fees. The table below summarizes the revenue and spending from the breed funds in FY 2010.

FY 2010 Fund Activity				
Breed Development Fund	Revenue	Expenditures		
		Purse Supplements & Owners/Breeders Awards	Administrative & Other	Total
Standardbred	$14,059,843	$12,790,510	$168,734	$12,959,244
Thoroughbred	10,975,921	9,970,429	66,383	10,036,812
Quarter Horse	1,401,350	1,186,732	19,957	1,206,689

The Gaming Integrity Fund annually receives $500,000 from each of the racinos. Revenue to the Gaming Integrity Fund totaled $1 M in FY 2010, with spending from the fund totaling $574,003. The fund is used to pay the costs of equine drug testing and analysis, improvements in testing, and research relating to equine drug testing.

Public Safety Officer Retirement Medical Benefit Plan: The bill would exclude the excise police, conservation enforcement officers, and state police from contributing to the defined contribution retirement medical benefit plan. The individuals already have a defined benefit retirement plan, so a second plan is unnecessary. The money that would have been spent on the defined contribution retirement medical benefit plan is to be allocated to the defined benefit retirement medical benefit plan, instead.

Correctional System Healthcare Provisions: This provision will cap the amount that health care providers can charge the Department of Correction for medical services for confined offenders to 4% above the federal Medicare reimbursement rate. If there is no federal Medicare reimbursement rate, the state will reimburse the health care provider or hospital at 65% of the amount charged by the health care provider or hospital that is specified by the charge master of the health care provider or hospital. Current law has the same cap for services charged by healthcare providers for persons in county jails.

DOC currently contracts with Correctional Medical Services for providing healthcare and medical services to confined offenders. This contract runs for the period between September 1, 2009, to August 31, 2011. This contract is worth $276.8 M.

Depending on what the current contract specifies, this provision could reduce costs to DOC for providing medical services to confined offenders.

Other DOC Provisions: DOC may provide assistance for tuition, books, and supplies to confined offenders who enroll in an eligible institution. This institution must operate in Indiana; be either operated by the state or a nonprofit organization; operate an organized program of postsecondary education leading to a technical certificate, nursing diploma, or associate or baccalaureate degree; and be accredited by a recognized regional accrediting agency, the Indiana Commission on Proprietary Education, or the Indiana State Board of Nursing.

Medicaid, CHIP, and HIP Provisions: Quality Assessment Fee (QAF)- The bill authorizes the Office of Medicaid Policy and Planning (OMPP) to apply to the Centers for Medicare and Medicaid Services (CMS) for approval to increase the amount of the QAF to the maximum percentage allowed by federal law and extend the collection of the fee for three years - until June 30, 2014. Medicaid waiver and plan amendments are generally considered to be administrative in nature and achievable within the current level of resources available to the OMPP. OMPP will be required to revise the current assessment methodology and the distribution of the collections. The ultimate QAF collections will depend on federal actions. Should federal financial participation become unavailable to provide for the additional reimbursement, the bill provides that OMPP will cease to collect the QAF.

The bill requires OMPP to notify the Indiana State Department of Health (ISDH) if any facility has failed to pay the QAF more that 120 days after the payment is due. The ISDH is required to notify the facility that the facility's license will be revoked if the QAF is not paid. This sanction provision is in place currently for the QAF.

The bill specifies that 70% of the collected QAF is to be used to pay the state share for Medicaid nursing facility services leveraging federal Medicaid matching funds. The remaining 30% is to go to the state to pay the state's share of other Medicaid costs. The bill specifies that any increase in Medicaid nursing facility reimbursement due to the maximization of the QAF is to be directed exclusively to initiatives determined by the OMPP to promote and enhance improvements to quality of care for nursing facility residents. This is estimated to be $32.3 M in state share, resulting in total state and federal Medicaid reimbursement of $95.1 M to be directed to quality improvement initiatives. [The current statute requires that 80% of the QAF collected must be used to leverage federal Medicaid matching funds to increase nursing facility reimbursement. The remaining 20% of the estimated QAF must be used to offset Medicaid costs incurred by the state.]

Medicaid Preferred Drug List (PDL) and Drug Utilization Review (DUR): The bill removes unrestricted access to mental health drugs in the Medicaid and CHIP, allowing for the review of the therapeutic classes of drugs for the purpose of placement on or removal from the PDL. Drug classes included on the PDL could bid for supplemental rebates. The bill exempts psychiatrists from being required to receive prior authorization to prescribe a drug included on the PDL and grandfathers prescriptions from prior authorizations for certain Medicaid recipients who have been taking the prescribed drug since before July 1, 2011. The bill also removes the requirement for prior authorization for drugs not included on the PDL. Medicaid mental health drug provisions were estimated to result in annual state savings of $7.2 M before the exemption from prior authorization for psychiatrists and the grandfathering of existing prescriptions for certain Medicaid recipients. Presumably, these provisions will result in an unknown reduction of anticipated savings.

CHIP Eligibility Provision: The bill would reduce the income eligibility for CHIP from 300% of the federal poverty level (FPL) to 250%, resulting in a state savings of $0.6 M in FY 2012 and $1.3 M in FY 2013. No children currently on CHIP would lose coverage as a result of this provision. Currently, the income eligibility for the CHIP program is 250% of FPL. The Office of Medicaid Policy and Planning was approved by CMS in January 2010 to expand the eligibility to the legislatively mandated 300% level and had planned to implement the expansion July 1, 2011. The expansion was estimated to cover an additional 146 children each month for two years resulting in 3,500 additional children receiving CHIP coverage. The income eligibility would impact a family of four with annual income over $55,125 but less than $66,150.

FSSA Provisions: The bill creates the Council on Evansville State Hospitals. The Council consists of 13 members who are not entitled to travel or salary per diem. Staffing and expenses of the Council shall be provided by the DMHA.

The DMHA reports that if the combined operation of the Evansville Psychiatric Treatment Center for Children and the Evansville State Hospital is recommended by the Council on Evansville State Hospitals (created by the bill), the combining of the operations could result in cost savings of approximately $673,000 per year.

State University Drug Purchasing: The bill would require state education institutions to participate in the state aggregate prescription drug purchasing program unless the Budget Agency determines participation would not result in a savings. Currently, state education institutions may choose to participate but are not required to participate. Three state educational institutions currently participate in the program, and four do not.

ICHIA Provisions: The ICHIA provisions in this bill could reduce expenses by a total of $6.15 M annually.

Of the total $6.15 M expense reduction, authorizing the ICHIA Board to implement a reduced reimbursement rate at not less than Medicare plus 10% could reduce costs annually by $3.75 M. Revising eligibility requirements to require applicants to first apply to the federal Pre-existing Condition Insurance Program and the Healthy Indiana Plan could reduce costs by $225,000. Mandating that ICHIA charge premium rates equal to 150% of the average commercial carrier rate could reduce costs by $2.175 M.

Indiana School for the Deaf and the Indiana School for the Blind and Visually Impaired: Under current law, both the Indiana School for the Deaf and the Indiana School for the Blind and Visually Impaired are state merit agencies. Teachers are subject to a salary schedule, using a daily rate of pay for each teacher that is equal to that of the Indianapolis Public Schools (IPS) (i.e., the largest school corporation in the county in which the schools are located). However, the vacation schedule for teachers is governed by state personnel rules, with the exception that they do not accrue vacation time during the summer months when school is not in session.

Under this bill, the vacation schedule of the employees at the two schools would no longer be governed by the state personnel rules, but would be the same as IPS policies. Teachers in IPS are on 10-month contracts with no vacation time. Administrators have a choice of an 11-month contract with 120 hours of vacation or 12-month contracts with 160 hours of vacation. The two schools are expected to save approximately $150,000 annually under this provision.

[State personnel with 1 to 4 years of service are entitled to 90 hours of vacation time per year; those with 5 to 9 years of service, 112.5 hours; those with 10 to 19 years, 150 hours; and those with 20 or more years, 187.5 hours. Staff at the School for the Deaf and the Indiana School for the Blind and Visually Impaired are permitted to use sick time when necessary, but the use of vacation and personal leave is limited throughout the school year because of the demands of the school schedule. Staff do not work during the two-week break for the winter holidays, one-week break for spring, and the approximately 10-week break during the summer months. Current practice has been to give a cash payout to teachers of any vacation leave balances accrued in excess of 30 days.]

Judicial Officers' and Legislators' Salaries: The bill requires a freeze on salaries for certain judicial officers and state legislators for FY 2012 and FY 2013. This provision will affect the salaries of 644 judicial officers and 150 legislators. Using an estimated 1.3% salary adjustment based on state employee raises effective January 1, 2011, this provision would reduce salary and fringe benefits by $1.1 M in FY 2012 and FY 2013. Additional salary savings would result if state employees receive subsequent salary increases in FY 2012 or FY 2013.

	No. Of Positions	Payroll
Court of Appeals Judges	15	$2,206,542
Magistrates and Referees	88	$7,434,981
Prosecuting Attorneys and Deputies	214	$20,693,320
Supreme Court	5	$756,640
Trial Court Judges	322	$38,542,154
State Legislators	150	$3,392,469
Grand Total	794	$73,026,106

<u>Explanation of State Revenues:</u> *Higher Education:* Priority Dual Credit Courses: The Higher Education Commission would be able to identify a set of courses offered by high schools and that receive postsecondary credit and state funding as priority dual credit courses. The Commission would also set the tuition and fees that could be charged for the courses. There should be no fiscal impact to the Commission. The impact on state educational institutions would depend on the rate set by the Commission. [The tuition charged by universities for other students for dual credit courses varies from $0 to $89 per credit hour. The cost is below the tuition charged for a full-tuition student, which ranges from $132 to $263 per credit hour.]

Tax Credit to Refund Surplus Revenue: The bill provides a refundable individual adjusted gross income tax credit to resident taxpayers when the state General Revenue Fund balance at the end of a fiscal year is greater than 10% of the budgeted appropriations from the state General Fund for the current fiscal year. (See *Explanation of State Expenditures* for definition of state General Revenue Fund.) The tax credit is to be given to resident taxpayers in the tax year ending during the fiscal year in which the 10% threshold is exceeded. The tax credit is equal to the tax credit amount determined by the State Budget Agency for a single return where the filer is an Indiana resident or to a joint return where only one of the filers is an Indiana resident. The tax credit is equal to the tax credit amount multiplied by two for joint returns where both filers are Indiana residents. While the tax credit is effective beginning in tax year 2012, it is estimated that no excess balance transfer will be required so no tax credits will be given. The magnitude of the credit in any tax year depends on the taxes paid by a taxpayer in the previous year as well as the magnitude of state General Fund balances and appropriations.

An individual taxpayer residing in Indiana on January 1st of the tax year is entitled to the tax credit if credits are given in that tax year. The bill provides that the tax credit is refundable and prohibits the tax credit from being carried back or carried forward by a taxpayer.

Sales Tax Revenue: This bill would increase revenue distributed to the General Fund by $7.6 M in FY 2012 and $7.95 M in FY 2013 and decrease revenue distributed to the Public Mass Transportation Fund by the same amounts respectively. The bill changes the distribution of Sales Tax Revenue by increasing the General Fund distribution from 99.178 % to 99.297% and decreasing the distribution to the Public Mass Transportation Fund from 0.67% to 0.551%.

Racino Revenue: The bill makes the following changes beginning in FY 2012:

(1) The bill changes the distribution formula for the current 15% payment to horse racing from racino slot machine adjusted gross receipts (AGR) to: (a) direct more revenue than under current statute to the state

General Fund; and (b) distribute a portion of the revenue to the 21st Century Research and Technology Fund.

(2) The bill establishes a deduction from AGR for the racinos when they compute the state slot machine wagering tax. The deduction would be for amounts distributed from the 15% payment to the state General Fund and the 21st Century Research and Technology Fund described in (1) above. This deduction will reduce revenue from the slot machine wagering tax to the state General Fund.

The net impact on state funds from these changes is presented in the table below. (Note: The net impact to the state General Fund is net new revenue distributed under (1) above minus the revenue loss under (2) above.)

Impact in Million $	**FY 2012**	**FY 2013**
State General Fund	$0.4	$1.8
21st Century Research & Tech. Fund	15.25	15.25
Thoroughbred Development Fund	(5.5)	(5.7)
Standardbred Development Fund	(6.9)	(7.1)
Quarter Horse Development Fund	(0.7)	(0.7)
Net Impact	$2.6	$3.6

Racino Payment of 15% of Slot Machine AGR to Horse Racing: Beginning in FY 2012, the bill: (1) reduces the amounts distributed from slot machine AGR to breed development funds, horse racing purses, and horsemen's associations; (2) increases the amount distributed from this revenue to the state General Fund; and (3) establishes a distribution of this revenue to the 21st Century Research and Technology Fund. The net impact to state funds from the change in the distribution of slot machine AGR is presented in the table below.

Impact in Million $	**FY 2012**	**FY 2013**
State General Fund	$14.3	$15.2
21st Century Research and Tech. Fund	15.25	15.25
Thoroughbred Development Fund	(5.5)	(5.7)
Standardbred Development Fund	(6.9)	(7.1)
Quarter Horse Development Fund	(0.7)	(0.7)
Net Impact	$16.5	$17.0

Under current statute, the racinos are required to pay 15% of their annual slot machine AGR to the following purposes: (1) the state Gaming Integrity Fund; (2) the state Breed Development Funds; (3) private horsemen's associations; and (4) horse racing purses. Current statute also has an inflationary limit on the annual payment to the horse racing purposes specified in (1) through (4) that directs money to the state General Fund. Under this provision, if 15% of a racino's AGR in a fiscal year exceeds the 15% payment made by the racino in the prior fiscal year increased by the inflation rate, the excess is transferred to the state General Fund. The Revenue Technical Committee Forecast (December 15, 2010) estimates that this transfer will total about $10.2 M in FY 2012 and $9.1 M in FY 2013. (Note: These amounts are not included in the General Fund amounts reported in the tables above.) The bill would eliminate this provision, and instead capture revenue for the state General Fund and the 21st Century Research and Technology Fund directly through a percentage distribution. The bill would also capture revenue for the state General Fund by limiting the distribution to breed development funds, horse racing purses, and horsemen's associations to $27 M annually. The table below compares the current distribution formula and estimated distributions for FY 2012 and FY 2013 to the distribution formula in the bill and the estimated FY 2012 and FY 2013 distributions resulting from the new formula.

	Current	FY 2012	FY 2013	Proposed	FY 2012	FY 2013
15% of AGR Payment by Racinos		$69.3	$69.1		$69.3	$69.1
General Fund Capture*		10.2	9.1		N/A	N/A
Net after General Fund Capture		59.1	60.0		69.3	69.1
Gaming Integrity		0.5	0.5		0.5	0.5
Net after Gaming Integrity		58.6	59.5		68.8	68.6
Equine Promotion/Welfare	0.5%	0.3	0.3	0.5%	0.3	0.3
Backside Benevolence	2.5%	1.5	1.5	2.5%	1.7	1.7
Total to Breeds, Purses, Assoc.	97%	56.8	57.7	39.5% up to $27 M	27.0	27.0
Total to Thoroughbred Purposes	46%	26.1	26.5	46%	12.4	12.4
Purses & Assoc.	60%	15.7	15.9	60%	7.5	7.5
Purses	97%	15.2	15.4	97%	7.2	7.2
HPBA**	2.4%	0.4	0.4	2.4%	0.2	0.2
TB O&B Assoc.**	0.6%	0.1	0.1	0.6%	0.1	0.1
Breed Development	40%	10.4	10.6	40%	4.9	4.9
Total to Standardbred Purposes	46%	26.1	26.5	46%	12.4	12.4
Purses & Assoc.	50%	13.1	13.3	50%	6.2	6.2
Purses	96.5%	12.6	12.8	96.5%	6.0	6.0
SB Assoc.**	3.5%	0.5	0.5	3.5%	0.2	0.2
Breed Development	50%	13.1	13.3	50%	6.2	6.2
Total to Quarter Horse Purposes	8%	4.6	4.6	8%	2.1	2.1
Purses & Assoc.	70%	3.2	3.2	70%	1.5	1.5
Purses	95%	3.0	3.0	95%	1.4	1.4
QHRA**	5%	0.2	0.2	5%	0.1	0.1
Breed Development	30%	1.4	1.4	30%	0.6	0.6
General Fund Distribution	N/A	N/A	N/A	57.5%	39.5	39.4
Excess from Breeds, Purses, Assoc. Distribution	N/A	N/A	N/A		0.2	0.1
Total General Fund	N/A	N/A	N/A		39.7	39.5

*General fund capture of revenue under inflationary limit described in prose.
**HPBA=Horsemen's Protective and Benevolent Association; TB O&B Assoc.=Thoroughbred Owners and Breeders Association; SB Assoc.=Standardbred Association; QHRA=Quarter Horse Racing Association.

Slot Machine Wagering Tax Deduction: The bill reduces the taxable base for the state slot machine wagering tax beginning in FY 2012 by allowing a deduction for racino slot machine AGR distributed to the state General Fund and the 21st Century Research and Technology Fund. The deduction would reduce revenue to the state General Fund from this tax. The revenue loss from this deduction is estimated at $13.9 M in FY 2012 and $13.4 M in FY 2013. The revenue loss estimate is based on the Revenue Technical Committee Forecast (December 15, 2010).

Sales Tax Exemption: This bill clarifies that the Council of State Governments (CSG) is exempt from gross retail and use taxes for transactions during the Midwest Legislative Conference in July 2011.

Cigarette Tax Revenue Provisions: The bill provides that 5.74% of the revenues collected from the Cigarette Tax are to be deposited into the state General Fund rather than the State Retiree Health Benefit Trust Fund during the biennium ending June 30, 2013. This would increase revenues to the state General Fund by $26.9 M in FY 2012 and $26.7 M in FY 2013, and the amount distributed to the State Retiree Health Benefit Trust Fund will be reduced by the same amount during this period. The distribution returns to the current percentages beginning in FY 2014. This bill also strikes a line item in current statute that provides that 2.46 % of the Cigarette Tax revenue must be deposited in the General Fund for Medicaid expenditures and increases the General Fund distribution by the same percentage. This provision would have no impact on the total amount of revenue distributed to the General Fund.

Medicaid, CHIP, and HIP Provisions: Extension of the QAF- Extending the authorization for the collection of the QAF and maximizing the amount to be collected from July 31, 2011, to June 30, 2014, would authorize an estimated annual collection of about $144.4 M for each of FY 2012, FY 2013, and FY 2014 if nursing facility days remain constant. The total annual collections and the state share of the collections from both provisions are as follows.

		State Benefit From		
Fiscal Year	**Total QAF Collections**	**Extension of QAF**	**% Change & Maximization**	**Total Collections**
2006	$ 327.4 M	$ 62.7 M		
2007	$ 108.4 M	$ 21.7 M		
2008	$ 103.4 M	$ 20.7 M		
2009	$ 96.5 M	$ 19.3 M	$ 14.5 M @	$ 33.8 M#
2010	$ 98.8 M	$ 19.8 M	$ 19.8 M @	$ 39.6 M
2011*	$ 98.2 M	$ 19.6 M	$ 9.8 M @	$ 29.4 M#
2012*	$ 144.4 M	$ 19.6 M	$ 23.7 M	$ 43.3 M
2013*	$ 144.4 M	$ 19.6 M	$ 23.7 M	$ 43.3 M
2014*	$144.4 M	$ 19.6 M	$ 23.7 M	$ 43.3 M
* Estimated; assumes nursing facility days remain constant.				
@ Estimated temporary increase in state share for ARRA stimulus.				
# Temporary increase in state share is for less than a full year.				

<u>Background:</u> In the current model approved by CMS, the amount of the QAF is based on a nursing facility's total annual patient days. Quality assessments of $10 per non-Medicare patient day are to be collected from

nursing facilities with total annual patient days of less than 70,000 days. Facilities with annual patient days equal to or greater than 70,000 days will be assessed $2.50 per non-Medicare day. Local government-owned nursing facilities will be assessed $2.50 per non-Medicare patient day, as well. Nursing facilities that are continuing care retirement communities, hospital-based, or owned by the state are exempt from the QAF.

Medicaid is jointly funded by the state and federal governments. The effective state share of program expenditures is approximately 34% for most services. Medicaid medical services are matched by the effective federal match rate (FMAP) in Indiana at approximately 66%. Administrative expenditures with certain exceptions are matched at the federal rate of 50%. Federal ARRA provides that enhanced Medicaid stimulus funding will be available to the state until December 31, 2010. An amendment to the ARRA subsequently extended phased-down stimulus funding until June 30, 2011.

Explanation of Local Expenditures: (Revised) *School Accountability:* The bill would require student data, including ISTEP test scores, academic progress, grade level, and graduation date for special education students be counted for the school corporation of the student's legal settlement. It could change a school's accountability designation and reduce the cost of some schools and increase the cost of other schools in complying with the state accountability measures.

Conversion Charter School Transfer: The bill allows a school corporation to transfer money from their corporation to a conversion charter school created by the school corporation. The amount of the transfer is limited to the difference in tuition support funding per student between the corporation and the conversion charter times the charter school's ADM. There is currently one conversion charter school in Indiana, Signature School, with Evansville-Vanderburgh School Corporation as the sponsor. Under the school formula in the bill, Evansville-Vanderburgh School Corporation will receive about $6,240 for CY 2012 and $6,257 for CY 2013 in tuition support per student, and Signature School will receive about $5,360 for CY 2012 and $5,276 for CY 2013. Signature Schools is projected to have an ADM of 338 for CY 2012 and 350 for CY 2013. The maximum transfer is about $297,440 for CY 2012 and $343,350 for CY 2013.

(Revised) *County Cumulative Building Fund:* Under current law, counties may establish cumulative jail funds and cumulative capital improvements funds. This provision would permit counties to use money in their cumulative jail and cumulative capital cumulative capital improvements funds to purchase or lease vehicles for the use of a community corrections program.

Nine counties currently have a cumulative jail fund, and one county currently has a cumulative capital improvements fund. This provision allows an additional use of money from funds that may be established under current law.

County Jail Healthcare Provisions: The bill also establishes caps on reimbursement of healthcare services provided by jails to persons who are under the custody of county sheriffs. The current caps (4% above federal Medicare rates or 65% of listed charges if there is no federal Medicare rate) are due to expire on June 30, 2011. This bill would strike the expiration date so the statutory cap would be permanent.

Medicaid, CHIP, and HIP Provisions: See *Explanation of State Revenues*, above, as it relates to municipally owned or county-owned nursing facilities or health facilities.

Explanation of Local Revenues: (Revised) *Riverboat Tax Distributions to Little Calumet Fund:* The bill requires the State Treasurer to annually transfer specified amounts from riverboat admission tax and riverboat wagering tax received by local units in Lake County to the Little Calumet River Project

Development Fund established under current statute. This fund is administered by the Little Calumet River Basin Development Commission. The bill requires that the transfers to the fund total $6.8 M in FY 2012, and $3.5 M in FY 2013. The table below reports the required annual transfers to the fund by revenue source and local unit. The table also reports the revenue distributed from the pertinent revenue source to each local unit in FY 2010.

			Annual Transfers to Little Calumet River Project Development Fund	
Source	**Local Unit**	**FY 2010 Revenue**	**FY 2012**	**FY 2013 and after**
Admission Tax	Lake County*	$13,327,573	$3,400,000	$1,750,000
	Cedar Lake	182,565	3,712	3,712
	Crown Point	389,684	7,922	7,922
	Dyer	273,385	5,558	5,558
	Griffith	341,047	6,934	6,934
	Highland	463,268	9,418	9,418
	Merrillville	601,269	12,200	12,200
	Munster	423,230	8,604	8,604
	St. John	164,916	3,353	3,353
	Schererville	488,944	9,940	9,940
Wagering Tax	Gary	11,257,270	1,766,150	891,650
	Hammond	13,749,023	1,566,209	790,709
Total		**41,662174**	**6,800,000**	**3,500,000**

* FY 2010 revenue total excludes amounts totaling $4,442,524 distributed under statutory revenue sharing to 16 nonriverboat local units in Lake County.

The bill requires the transferred revenue to be held in a segregated account within the fund. The bill also requires the State Treasurer to suspend the transfers at the beginning of a state fiscal year, if the balance in the segregated account exceeds $7 M . The suspension would apply for at least 12 months and until the balance in the segregated account is less than $7 M. The bill authorizes the State Treasurer to subsequently resume transfers to the segregated account in order to restore the $7 M balance.

The bill requires the Commission to transfer $300,000 annually from the segregated account to the Northwest Indiana Regional Development Commission (NIRDA). Other than the transfer to NIRDA, the bill provides that money in the segregated account may be used only for expenses directly related to the operation, repair, and maintenance of flood protection systems within the watershed. Money in the segregated account may not be transferred into other accounts within in the fund.

Local Option Income Tax Certified Distributions: This bill requires the State Budget Agency to reduce local option income tax certified distributions for CY 2012, CY 2013, and CY 2014 by $408,276,000 to counties in which overpayments were made during FY 2009, FY 2010, and FY 2011. The Revenue Forecast Technical Committee estimated that the amounts distributed to counties for these years exceeded the amount of revenue collected from local option income taxes by about $609,700,000. Current statute provides that the State Budget Agency may certify distributions of local option income tax revenue less than the amounts reported and processed to offset overpayments made in previous calendar years. Based on estimates by the Revenue Technical Committee (December 15, 2010), the amounts expected to be recaptured during CY 2012, CY 2013, and CY 2014 could potentially total $258.9 M. Thus, the additional amount that could be recaptured under the bill could potentially total $148.4 M during CY 2012, CY 2013, CY 2014. Potentially, this amount could be recaptured under the bill during FY 2012 and FY 2013.

Medicaid, CHIP, and HIP Provisions: See *Explanation of State Expenditures*, above, as it relates to Health and Hospital Corporation of Marion County and municipally owned or county-owned nursing facilities or health facilities.

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources: State Revenue Forecast, December 15,2010; State *of Indiana Employee Handbook*; State Budget Agency, *Fiscal Year 2009-2010 Close-Out Statement* (July 16, 2010); State of Indiana Employee Handbook; Dr. David Geeslin, Superintendent/CEO, Indiana School for the Deaf, 317-924-8400; Indiana Economic Development Corporation, *Twenty-First Century Research and Technology Fund: Ninth Report to the Indiana General Assembly,* July 1, 2009-June 30, 2010.

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